

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Chairman;
Tony Hammond, Vice Chairman;
Mark Acton; and
Nanci E. Langley

Competitive Product Prices
Inbound Parcel Post (at UPU Rates)

Docket No. CP2018-286

ORDER APPROVING CHANGES IN PRICES NOT OF GENERAL APPLICABILITY
FOR CERTAIN INBOUND PARCEL POST (AT UPU RATES)

(Issued August 23, 2018)

I. INTRODUCTION

The Postal Service proposes a change in prices not of general applicability for certain Inbound Parcel Post (at Universal Postal Union (UPU) rates), effective January 1, 2019.¹ The Commission analyzes the proposed prices pursuant to 39 U.S.C. § 3633. For the reasons discussed below, the Commission approves the Postal Service's proposed price changes.

¹ Notice of the United States Postal Service of Filing Changes in Rates Not of General Applicability for Certain Inbound Parcel Post (at UPU Rates), and Application for Non-Public Treatment, August 13, 2018, at 1 (Notice).

II. BACKGROUND

Inbound Parcel Post (at UPU rates). At the time it established separate product lists for market dominant and competitive products in 2007, the Commission assigned Inbound Air Parcel Post to the competitive product list.² In 2009, Inbound Air Parcel Post was bifurcated.³ In Order No. 362, the existing product, Inbound Air Parcel Post, was renamed Inbound Air Parcel Post (at non-UPU rates). Order No. 362 at 8-9. In that same Order, the Commission approved the addition of a new product, Inbound Air Parcel Post (at UPU rates), to the competitive product list. *Id.* An initial review of the new product's prices indicated compliance with statutory requirements. *Id.* On June 26, 2014, the Commission accepted proposed price changes for Inbound Air Parcel Post (at UPU rates).⁴

On August 19, 2014, the Commission approved the Postal Service's request to: (1) transfer Inbound Surface Parcel Post (at UPU rates) from the market dominant product list to the competitive product list; (2) merge the transferred product with Inbound Air Parcel Post (at UPU rates); and (3) identify the merged product as Inbound Parcel Post (at UPU rates).⁵ An initial review indicated compliance with statutory requirements. Order No. 2160 at 7. As part of Order No. 2160, Inbound Air Parcel Post

² Docket No. RM2007-1, Order Establishing Ratemaking Regulations for Market Dominant and Competitive Products, October 29, 2007, at 100 (Order No. 43).

³ Docket Nos. MC2010-11 and CP2010-11, Order Adding Inbound Air Parcel Post at UPU Rates to Competitive Product List, December 15, 2009 (Order No. 362).

⁴ Docket No. CP2014-52, Order Accepting Price Changes for Inbound Air Parcel Post (at UPU Rates), June 26, 2014, at 5 (Order No. 2102). In Order No. 2102, the Commission also directed the Postal Service to provide, in future filings, a citation to where the applicable inward land rates can be located in the relevant UPU International Bureau (IB) Circular and to provide a copy of that circular. *Id.* In addition, the Commission directed the Postal Service to provide an update, as part of each filing, of information and data that had been provided in the Management Analysis that had accompanied the prices proposed for Inbound Air Parcel Post (at UPU rates). *Id.* at 5-6. The Postal Service states that much of the requested data is inapplicable to the e-commerce parcel (ECOMPRO) prices, which are set by the Postal Service and then communicated to the UPU. Notice at 6.

⁵ Docket No. MC2014-28, Order Approving Product List Transfer, August 19, 2014, at 8 (Order No. 2160).

(at UPU rates) and Inbound Surface Parcel Post (at UPU rates) were merged into a single product identified as Inbound Parcel Post (at UPU rates). *Id.*

On January 11, 2017, the Commission approved, in part, the Postal Service's request to include ECOMPRO as part of the Inbound Parcel Post (at UPU rates) product.⁶ ECOMPRO allows designated postal operators of UPU member countries, including the Postal Service, to mutually consent to the UPU's e-commerce delivery options. Order No. 3748 at 5. There are several differences between Inbound Air Parcel Post and ECOMPRO offerings, including that ECOMPRO does not require signature upon delivery. *Id.* In Order No. 3748, the Commission added ECOMPRO to the competitive product list at the same prices as the UPU inbound air parcel post rates. *Id.* at 7. The Commission did not approve the Postal Service's request to include future bilateral agreements for discounted ECOMPRO prices as part of the Inbound Parcel Post (at UPU rates) because the Postal Service neither proposed specific discounted prices nor provided financial models that incorporated the effect of the discounted prices. *Id.* at 9.

Initial Commission action. On August 13, 2018, the Postal Service requested approval of new ECOMPRO prices, scheduled to take effect on January 1, 2019. Notice at 1. On August 14, 2018, the Commission issued a notice establishing the instant docket, appointing a Public Representative, and providing interested persons with an opportunity to comment.⁷

III. PROPOSED PRICE CHANGE

The Postal Service requests the Commission's approval of the proposed ECOMPRO prices that will not necessarily be equivalent to its UPU inbound air parcel post rates effective in January 2019. Notice at 3. Rather, the proposed prices will likely

⁶ Docket Nos. MC2017-58 and CP2017-86, Order Approving in Part Classification Changes for Inbound Parcel Post (at UPU Rates), January 11, 2017, at 7 (Order No. 3748).

⁷ Notice and Order Concerning Changes in Rates for Inbound Parcel Post (at UPU Rates), August 14, 2018 (Order No. 4758).

be lower than the new 2018 UPU inbound air parcel post rates.⁸ The Postal Service states that the lower prices acknowledge the lower cost associated with ECOMPRO as compared to the inbound air parcel post costs. *Id.* at 3. The Postal Service also states that the proposed prices seek to incentivize foreign postal operators to provide item-attributed customs advance electronic data. *Id.*

The Postal Service filed separately under seal with the Commission the prices and supporting documents it represents show compliance with 39 U.S.C. § 3633(a)(2) and 39 C.F.R. § 3015.5. See *id.* at 4. The Postal Service's Application for Non-Public Treatment of those materials is included in the Notice as Attachment 1. A redacted version of the proposed ECOMPRO prices is included as Attachment 2. The certified statement required by 39 C.F.R. § 3015.5(c)(2) is included as Attachment 3. Redacted copies of Governors' Decision Nos. 14-04 and 11-6 are included as Attachments 4 and 5, respectively.

The Postal Service also filed supporting financial documentation that provides the special drawing rights conversion rate to U.S. dollars and the estimated cost coverage, assuming that all inbound air parcel post volume is exchanged using the ECOMPRO delivery option and prices. Notice at 6. The Postal Service states that the proposed ECOMPRO prices should generate sufficient revenue to cover costs and satisfy the requirements of 39 U.S.C. § 3633(a)(2). See *id.*

IV. COMMENTS

The Public Representative filed comments on August 21, 2018.⁹ No other comments were received. Based on her review of the financial data, the Public Representative concludes that the proposed ECOMPRO prices would not preclude the

⁸ *Id.* at 3-4. The new 2019 inbound air parcel post rates will be determined by the UPU pursuant to applicable regulations and then communicated to the Postal Service in a UPU IB Circular notice later this year. *Id.*

⁹ Public Representative Comments on Changes in Prices for Inbound Parcel Post (at UPU Rates), August 21, 2018 (PR Comments).

Inbound Parcel Post (at UPU rates) product from satisfying the requirements of 39 U.S.C. § 3633(a). PR Comments at 2.

V. COMMISSION ANALYSIS

The Commission reviews price changes for competitive products in terms of the criteria in 39 U.S.C. § 3633(a). These criteria prohibit the subsidization of competitive products by market dominant products (§ 3633(a)(1)); require each competitive product to cover its attributable costs (§ 3633(a)(2)); and require competitive products as a whole to cover an appropriate share of institutional costs (§ 3633(a)(3)).

The Commission has reviewed the Notice, the materials filed under seal, the revised financial analysis, and the Public Representative's comments. The Postal Service states that the proposed ECOMPRO prices comply with the requirements of 39 U.S.C. § 3633(a). Notice at 7. The Public Representative concludes that the proposed ECOMPRO prices do not impede the Inbound Parcel Post (at UPU rates) product from generating sufficient revenues to cover costs and therefore meet the requirements of 39 U.S.C. § 3633(a). PR Comments at 2.

The Commission finds that the Postal Service demonstrates that the proposed ECOMPRO prices are expected to comply with the statutory criteria intended to ensure that competitive products are not cross-subsidized by market dominant products, that they cover costs, and make a contribution to institutional costs. See 39 U.S.C. § 3633(a)(1) through (a)(3). Thus, the proposed ECOMPRO prices comport with the provisions applicable to competitive products. The Commission approves the proposed ECOMPRO prices.

The Commission notes that the Postal Service uses ACP¹⁰ volume and weight as a proxy for ECOMPRO volume and weight in its supporting workpapers.¹¹ It is unclear,

¹⁰ "ACP" stands for air *colis postaux*, "postal package," and refers to Inbound Parcel Post pieces transmitted by air.

¹¹ See Excel file "REDACTED IB eCompro 8-18.xlsx," tab "03_ICRA_Volume_Weight," cell B2.

however, how reliable, accurate, or representative these data are as a proxy for ECOMPRO. It is possible that ECOMPRO pieces have a materially different distribution by weight or by country than ACP pieces, which would affect the estimated cost coverage of the Inbound Parcel Post (at UPU rates) product. For the purposes of the instant proceeding, the Commission accepts the Postal Service's use of ACP volume and weight as a proxy for ECOMPRO volume and weight for two reasons. First, the Postal Service only began receiving ECOMPRO pieces in Quarter 2 of FY 2017, so it lacks a full fiscal year of data to develop discrete cost and revenue estimates for ECOMPRO.¹² Second, with the exception of signature confirmation, these pieces exhibit similar cost characteristics to ACP. Order No. 3748 at 7. However, to increase transparency and accountability of the Inbound Parcel Post (at UPU rates) product, the Postal Service must report separately the revenue, pieces, and weight of ECOMPRO pieces for each country in future Annual Compliance Reports, and must use ECOMPRO pieces exclusively in its analysis when requesting future changes to ECOMPRO prices.

VI. ORDERING PARAGRAPHS

It is ordered:

1. The Commission finds that the proposed ECOMPRO prices, scheduled to take effect on January 1, 2019, are in accordance with the relevant statutory and regulatory requirements of 39 U.S.C. § 3633(a) and 39 C.F.R. § 3015.7.

¹² See Docket No. CP2017-267, Order Approving Changes in Prices Not of General Applicability for Certain Inbound Parcel Post (at UPU Rates), August 28, 2017, at 4 (Order No. 4070).

2. The Postal Service shall report separately the revenue, pieces, and weight of ECOMPRO pieces for each country in future Annual Compliance Reports, and must use ECOMPRO pieces exclusively in its analysis when requesting future changes to ECOMPRO prices.

By the Commission.

Stacy L. Ruble
Secretary